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September 1, 2010

VIA ELECTRONIC MAIL

Jocelyn G. Boyd, Esquire
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
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VIA ELECTRONIC MAIL AND US MAIL

Mr. David R. Carpenter
Director – Rates
Piedmont Natural Gas Company, Inc.
Piedmont Town Center
4720 Piedmont Row Drive
Charlotte, NC 28210

Re: Report of the South Carolina Office of Regulatory Staff's Examination of
Piedmont Natural Gas Company's Monitoring Report under the Natural Gas Rate
Stabilization Act for the Twelve-Month Period Ending March 31, 2010

Docket No. 2010-7-G

Dear Ms. Boyd and Mr. Carpenter:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2009), ("RSA" or "The Act"), conducted an examination of Piedmont Natural Gas Company's (hereafter "Piedmont" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2010. The examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2010, Quarterly Monitoring Report a rate of return and return on equity of 9.63% and 11.61%, respectively. The Company's calculation of additional revenue requirements totaled \$910,575 consisting of a \$1,833,932 margin increase accompanied by a \$923,357 decrease for demand and commodity cost adjustments. The company reported a decrease of \$918,380 for its Cost of Gas, of which, \$512,264 is demand cost over-recovery and \$406,116 is related to commodity cost.¹

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to reported amounts in order to bring the report into conformance with Section 58-5-430 and Section 58-5-440 of the Act. As a result of the foregoing adjustments, ORS calculated the Company's rate of return and return on common equity as 9.21% and 10.90%, respectively.

Therefore, in accordance with the guidelines of the Act, the Company is entitled to an increase in rates sufficient to achieve a return on equity equaling 12.60%. Accordingly, ORS recommends that the Company be authorized a net increase to revenues of \$2,229,899. This increase is comprised of a recommended margin increase of \$3,155,000 and a decrease of \$925,101 for demand and commodity cost adjustments. After the proposed increase, the Company's rate of return and return on equity will be 10.20% and 12.60%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	<u>Rates of Return</u>	
				Rate Base	Common Equity
10/21/05	2005-125-G	\$4,672,048	\$1,387,964	10.34%	12.60%
09/27/06	2005-125-G	\$11,249,086	\$6,533,885	9.48%	11.20%
10/12/07	2005-125-G	\$1,795,575	(\$709,140)	9.35%	11.20%
10/14/08	2005-125-G	\$5,302,089	\$1,822,717	9.33%	11.20%
10/13/09	2005-125-G	\$2,521,784	(\$506,062)	9.26%	11.20%

The following is a description of the Schedules prepared by ORS as a result of its examination of the Company's filing:

Schedule 1 presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2010, and ORS's accounting and pro forma adjustments which are necessary to correct or normalize the Company's operations both before and after the effect of the requested increase. Utilizing a rate base of \$196,733,396 and per book income of \$16,422,759 ORS computed a rate of return on per book operations of 8.35% with an accompanying return on equity of 9.42%. ORS's accounting and pro forma adjustments increased operating income to \$18,100,872 and decreased rate base to \$196,509,708. The return on equity computed by ORS after accounting and pro forma adjustments was 10.90%. After the adjustments for the proposed

¹ Adjustment 17 to Cost of Gas on Schedule 7 of the Company's March 31, 2010 Quarterly Monitoring Report incorporates a decrease for commodity cost of \$406,116. This decrease of \$406,116 in commodity cost is due to a reduction in the lost and unaccounted for (LAUF) factor from 2.16% to 1.77%.

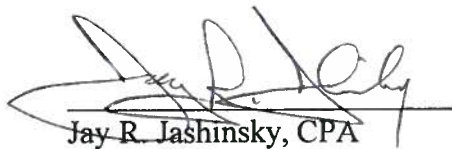
margin increase of \$3,155,000 and the decrease for demand and commodity cost adjustments of \$925,101, operating income increased to \$20,043,672. The rate of return on rate base computed by ORS after the adjustments for the proposed increase is 10.20% with a corresponding return on equity of 12.60%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the weighted cost of capital used by the Company in calculating its return on equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long-term debt and equity according to the respective ratios as computed using the Company's weighted capital structure. The amount of total income for return necessary to cover an embedded cost rate of 6.86% on long-term debt is computed to be \$5,633,529. The remainder of the total income for return of \$12,467,343 is income to common equity. Such remainder produced a return of 10.90% on common equity. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 9.21%. Such overall cost of capital equals the rate of return on rate base shown on Schedule 1.

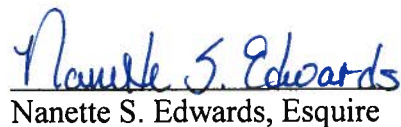
After the proposed increase of \$3,155,000 for the proposed margin increase and the \$925,101 decrease for demand and commodity cost adjustments, income available to common equity is \$14,410,143 and return on common equity is 12.60%. Overall cost of capital as detailed in Schedule 3 equals 10.20%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,



Jay R. Jashinsky, CPA

- and -



Nanette S. Edwards, Esquire

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand and Commodity Cost	(6) Total After Proposed Rates
<u>Operating Revenues</u>						
1 Sale and Transportation of Gas	\$ 187,815,336	\$ (18,130,137)	(1) \$ 169,685,199	\$ 3,155,000	(12) \$ (925,101)	(18) \$ 171,915,098
2 Other Operating Revenues	867,306	0	867,306			867,306
3 Total Operating Revenues	<u>188,682,642</u>	<u>(18,130,137)</u>	<u>170,552,505</u>	<u>3,155,000</u>	<u>(925,101)</u>	<u>172,782,404</u>
<u>Operating Expenses</u>						
4 Cost of Gas	118,713,478	(19,898,053)	(2) 98,815,425		(918,380)	(19) 97,897,045
5 Operations and Maintenance	27,445,379	(801,712)	(3) 26,643,667	7,558	(2,216)	(20) 26,649,009
6 Depreciation	12,000,768	567,410	(4) 12,568,178			12,568,178
7 General Taxes	6,984,689	(177,227)	(5) 6,807,462	15,364	(4,505)	(21) 6,818,321
8 State Income Taxes	1,267,481	(269,028)	(6) 998,453	156,604	(15)	1,155,057
9 Federal Income Taxes	5,838,036	778,879	(7) 6,616,915	1,041,416	(16)	7,658,331
10 Amortization of Investment Tax Credits	(31,677)		(31,677)			(31,677)
11 Total Operating Expenses	<u>172,218,154</u>	<u>(19,799,731)</u>	<u>152,418,423</u>	<u>1,220,942</u>	<u>(925,101)</u>	<u>152,714,264</u>
12 Net Operating Income	16,464,488	1,669,594	18,134,082	1,934,058	0	20,068,140
13 Interest on Customers' Deposits	(138,597)		(138,597)			(138,597)
14 Amortization of Debt Redemption Premium	(6,363)	20	(8) (6,343)			(6,343)
15 Allowance for Funds Used During Construction	29,764		29,764			29,764
16 Customer Growth	73,467	8,499	(9) 81,966	8,742	(17)	90,708
17 Net Operating Income for Return	<u>\$ 16,422,759</u>	<u>\$ 1,678,113</u>	<u>\$ 18,100,872</u>	<u>\$ 1,942,800</u>	<u>\$ 0</u>	<u>\$ 20,043,672</u>
<u>Original Cost Rate Base:</u>						
18 Plant in Service	\$ 387,064,056	\$ 0	\$ 387,064,056			\$ 387,064,056
19 Accumulated Depreciation	(158,262,732)		(158,262,732)			(158,262,732)
20 Net Plant in Service	228,801,324	0	228,801,324			228,801,324
Add:						
21 Construction Work in Progress	3,000,099	(90,681)	(10) 2,909,418			2,909,418
22 Materials and Supplies	15,190,710		15,190,710			15,190,710
23 Cash Working Capital	2,015,191	(133,007)	(11) 1,882,184			1,882,184
Deduct:						
24 Customers' Advances	0		0			0
25 Customers' Deposits	4,290,902		4,290,902			4,290,902
26 Accumulated Deferred Income Taxes	47,636,510		47,636,510			47,636,510
27 Unclaimed Funds	346,516		346,516			346,516
28 Original Cost Rate Base:	<u>\$ 196,733,396</u>	<u>\$ (223,688)</u>	<u>\$ 196,509,708</u>			<u>\$ 196,509,708</u>
29 Rate of Return	<u>8.35%</u>		<u>9.21%</u>			<u>10.20%</u>
30 Return on Equity	<u>9.42%</u>		<u>10.90%</u>			<u>12.60%</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues on a going-level basis.	\$ (16,543,721)	\$ (18,130,137)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ (16,543,721)</u>	<u>\$ (18,130,137)</u>
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (19,898,053)	\$ (19,898,053)
	<u>Total Cost of Gas</u>	<u>\$ (19,898,053)</u>	<u>\$ (19,898,053)</u>
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2010, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (74,514)	\$ (74,514)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(15,940)	(15,940)
c.	To adjust pension costs included in the filing.	206,366	206,366
d.	To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .23955%.	(238,023)	(247,122)
e.	To decrease expenses for allocations to non-utility activities.	(19,386)	(19,386)
f.	To increase expenses for the Long-Term Incentive Plan.	46,364	46,364
g.	To decrease expenses for the Short-Term Incentive Plan.	(279,275)	(279,275)
h.	To decrease expenses for the MVP Incentive Plan.	(273,305)	(273,305)

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
	i. To decrease expenses for group insurance.	(5,225)	(5,225)
	j. To increase expenses for the Piedmont Town Center lease.	5,857	5,857
	k. To increase expenses for Piedmont Town Center CAM expense.	1,194	1,194
	l. To increase expenses for amortization of early retirement incentive.	151,229	151,229
	m. To increase expenses for the South Carolina assessment fee.	11,716	17,648
	n. To decrease expenses for items that are nonallowable for ratemaking purposes.	(151,715)	(284,453)
	o. To decrease expenses for Gas Technology Institute dues that are recovered 100% from North Carolina ratepayers.	(31,150)	(31,150)
	p. To decrease expense for the Stock Rescission Fees.	0	0
	<u>Total Operations and Maintenance Expense</u>	<u>\$ (665,807)</u>	<u>\$ (801,712)</u>
4	<u>Depreciation Expense</u>		
	To increase depreciation expense on a going-level basis using the most current depreciation study rates.	\$ 596,650	\$ 567,410
	<u>Total Depreciation Expense</u>	<u>\$ 596,650</u>	<u>\$ 567,410</u>
5	<u>General Taxes</u>		
	a. To decrease property taxes on a going-level basis.	\$ (24,011)	\$ (24,011)
	b. To decrease payroll tax expense.	(64,926)	(64,926)
	c. To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the adjustment made to decrease revenues on a going-level basis.	0	(88,290)
	<u>Total General Taxes</u>	<u>\$ (88,937)</u>	<u>\$ (177,227)</u>
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (202,705)	\$ (269,028)
	<u>Total State Income Taxes</u>	<u>\$ (202,705)</u>	<u>\$ (269,028)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

Line No.	Description	Per Piedmont	Per ORS
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 1,219,926	\$ 778,879
	<u>Total Federal Income Taxes</u>	\$ 1,219,926	\$ 778,879
8	<u>Amortization of Debt Redemption Premium</u>		
	To increase net operating income for amortization of debt redemption premium.	\$ 20	\$ 20
	<u>Total Amortization of Debt Redemption Premium</u>	\$ 20	\$ 20
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .452.%) following the adjustments to operating revenues and expenses.	\$ 11,228	\$ 8,499
	<u>Total Customer Growth</u>	\$ 11,228	\$ 8,499
10	<u>Construction Work in Progress</u>		
	To adjust construction work in progress to reflect the amount attributable to South Carolina.	\$ 0	\$ (90,681)
	<u>Total Construction Work in Progress</u>	\$ 0	\$ (90,681)
11	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (116,018)	\$ (133,007)
	<u>Total Cash Working Capital</u>	\$ (116,018)	\$ (133,007)
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 1,833,932	\$ 3,155,000
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 1,833,932	\$ 3,155,000

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

Line No.	Description	Per Piedmont	Per ORS
13	<u>Operations and Maintenance Expenses</u>		
a.	To adjust the provision for uncollectible accounts (.23955%) for the proposed margin increase.	\$ 4,450	\$ 7,558
b.	To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	5,488	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 9,938</u>	<u>\$ 7,558</u>
14	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the proposed margin increase.	\$ 0	\$ 15,364
	<u>Total General Taxes</u>	<u>\$ 0</u>	<u>\$ 15,364</u>
15	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin increase.	\$ 91,200	\$ 156,604
	<u>Total State Income Taxes</u>	<u>\$ 91,200</u>	<u>\$ 156,604</u>
16	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin increase.	\$ 606,478	\$ 1,041,416
	<u>Total Federal Income Taxes</u>	<u>\$ 606,478</u>	<u>\$ 1,041,416</u>
17	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .452%) following the proposed margin increase.	\$ 5,068	\$ 8,742
	<u>Total Customer Growth</u>	<u>\$ 5,068</u>	<u>\$ 8,742</u>
18	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease the revenue requirement for the sale and transportation of gas associated with adjustments for demand and commodity cost.	\$ (923,357)	\$ (925,101)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ (923,357)</u>	<u>\$ (925,101)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
19	<u>Cost of Gas</u>		
a.	To decrease cost of gas for the demand cost over-recovery using a demand cost allocation factor of 16.01%, based upon the most recent design day study.	\$ (512,264)	\$ (512,264)
b.	To decrease cost of gas for commodity cost resulting from the change in the Lost and Unaccounted For factor from 2.16% to 1.77%.	\$ (406,116)	\$ (406,116)
	<u>Total Cost of Gas</u>	\$ (918,380)	\$ (918,380)
20	<u>Operations and Maintenance Expenses</u>		
a.	To decrease the provision for uncollectible accounts (rate of .23955%) following the adjustments to revenue for demand and commodity cost.	\$ (2,228)	\$ (2,216)
b.	To decrease the franchise taxes (rate of .3%) following the adjustments to revenue for demand and commodity cost.	(2,748)	0
	<u>Total Operations and Maintenance Expenses</u>	\$ (4,976)	\$ (2,216)
21	<u>General Taxes</u>		
	To decrease the franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the adjustments to revenue for demand and commodity cost.	\$ 0	\$ (4,505)
	<u>Total General Taxes</u>	\$ 0	\$ (4,505)

**Piedmont Natural Gas Company
South Carolina Operations
Weighted Cost of Capital
Docket No. 2010-7-G**

Schedule 3

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>				<u>As Adjusted</u>				<u>After Proposed Increase</u>			
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Net Operating Income</u>
Long-Term Debt	723,374,320	41.79%	82,214,886	6.86%	2.87%	5,639,941	82,121,407	6.86%	2.87%	5,633,529	82,121,407	6.86%	2.87%	5,633,529
Common Equity	1,007,553,494	58.21%	114,518,510	9.42%	5.48%	10,782,818	114,388,301	10.90%	6.34%	12,467,343	114,388,301	12.60%	7.33%	14,410,143
Total	<u>1,730,927,814</u>	<u>100.00%</u>	<u>196,733,396</u>		<u>8.35%</u>	<u>16,422,759</u>	<u>196,509,708</u>		<u>9.21%</u>	<u>18,100,872</u>	<u>196,509,708</u>		<u>10.20%</u>	<u>20,043,672</u>